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SUBJECT: MASSIVE GRAIN CONTRACTS THREATEN SOUTHERN SUDAN BUDGET

REF: Khartoum 880

1. (U) SUMMARY. Speaking on July 28 before the Southern Sudan Legislative Assembly (SSLA), David Deng Athorbei, the Government of Southern Sudan's (GOSS) newly-appointed Minister of Finance, publicly confirmed that the GOSS has committed six billion Sudanese pounds (appx. 2.7 billion USD) to off-budget purchases of grain. These funds - equal to more than 150 percent of Southern Sudan's entire budget for 2009 - were intended to create a strategic food reserve, but the program has been riddled with bureaucratic ineptitude and possible fraud. These contracts now represent a potentially debilitating drain on government coffers. Faced with strong legislative criticism, Athorbei pledged to report within 45 days on the results of the government's ongoing investigation. This legislative oversight will be reinforced by Southern Sudan's donors, who have made resolution of the grain contracts issue a prime focus of the recent donor compact with the GOSS. END SUMMARY.

STRATEGIC GRAIN RESERVE A BUDGET-BUSTING BUST

2. (U) John Oromo Itorong, a National Congress Party (NCP) member of the Southern Assembly, reported to the latter on June 28, that beginning in 2008 the GOSS Ministry of Finance and Economic Planning has issued contracts for the purchase of grain worth approximately 6.26 billion Sudanese pounds, or approximately \$2.7 billion. The value of these contracts, which were issued to Southern Sudanese entrepreneurs for the purchase of some 50 million bags of maize and sorghum, exceeds the Government of Southern Sudan's entire budget for 2008 or 2009 (5.5 billion and 3.6 billion pounds, respectively). No provision was made for these purchases in either year's appropriations. Additionally, although the grain was purchased to create a strategic food reserve, storage facilities and security were inadequate in many of the areas to which grain was delivered. Consequently, there has been spoilage and public "ransacking" of the grain stores.

3. (U) Summoned before the Assembly, Athorbei, did not challenge Itorong's report, which was consistent with information previously released in donor-attended budget sector working groups. In addition, he had no explanation of how the contracts had been approved. Athorbei said that he suspended grain purchases upon taking office after the May 30 cabinet reshuffle. The Ministry's technocrats were unable to explain to him, he said, how the contracts had been approved without authorization by the Council of Ministers or the legislature. Ministry officials had also "lost count," he said, of the value of grain contracts issued since February.

4. (U) Athorbei committed to report, within 45 days, on the government's ongoing investigation of the contracts. The Minister noted that only 478 million pounds of the multi-billion pound total

have actually been paid out to date, but he expects that the government may be legally obligated to pay many of the outstanding contracts. Athorbei stated that future work to develop strategic grain reserves would be handled outside the Ministry of Finance.

15. (SBU) COMMENT: Ministry advisors indicated to ConGen staff that senior GOSS officials had ordered Finance Ministry staff to override financial controls that would have prevented the issuing of these contracts. Ministry officials confirmed that the Ministry also has no account of actual grain deliveries, or the amount of grain in storage, multiplying opportunities for fraud. Finance Ministry staff and expatriate advisors are currently creating a central registry for the grain contracts and tallying contract amounts. The total liability may grow as previously-unknown contracts come to light.

ASSEMBLY MEMBERS BLAST GOVERNMENT, BUT WILLING TO WAIT

16. (U) The Assembly members who participated in the debate were sharply critical of the GOSS for jeopardizing Southern Sudan's finances, but they trod lightly on the newly-installed Athorbei. Itorong criticized what he called the Ministry of Finance's "managerial diarrhea," charging that unregistered companies regularly walked away with ministry funds under Athorbei's predecessor. He also lamented that the performance of the grain contracts had been particularly poor in areas where food insecurity was the most extreme, including Northern Bahr el-Ghazal State. Peter Bashir Bendi, a Sudan People's Liberation Movement (SPLM) committee chairman who backed Itorong's push to debate the contracts issue, expressed appreciation for Athorbei's candor, but compared

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the Ministry's actions to "committing genocide against our own people." (Note: An unfortunate turn of phrase. End Note.)

17. (U) Given the otherwise sharp rhetoric, the Assembly members were restrained in discussing next steps. The members voted to accept Athorbei's timeline and declined, for now, to create an investigative committee of their own. No member suggested summoning the former Finance Minister, Kuol Athien Mawien, and only one called for sanctions beyond seeking the return of the improperly authorized funds.

18. (SBU) Placing the grain contracts issue on the Assembly's agenda required months of pressure from members and exposed tensions within the SPLM on the proper approach to government oversight. Itorong, an NCP member, and a handful of supporters from other opposition parties and the majority SPLM, first sought to raise the issue four months ago. Members of the SPLM caucus pushed to debate the issue in a less public forum, according to ConGen contacts in the Assembly, but eventually relented. Still, an SPLM member tried to interrupt Itorong's July 28 presentation with a procedural objection, but was shouted down by Bashir Bendi and the Acting Speaker, another NCP member. Bashir Bendi urged his peers not "to hide behind the SPLM when we do wrong things."

GOSS RESPONSE UNDER WAY, DEGREE OF COMMITMENT NOT YET CERTAIN

19. (SBU) COMMENT. In its broad June 30 compact with donors, the Government of Southern Sudan committed itself to undertake austerity measures to freeze the issuance of grain contracts and review those already issued. Athorbei is taking encouraging first steps, but Ministry advisors are concerned that he has not ordered a comprehensive legal review of the authorization behind each contract. Such a review would help ensure that grain contracts are paid on the basis of their validity, rather the political influence of individual contractors.

110. (SBU) COMMENT CONTINUED. USAID and a TDY Treasury Department advisor on detail to State are assisting the GOSS in strengthening its contracting and expenditure procedures, The GOSS's endorsement of the donor compact is arguably a sign of senior-level political

commitment to abide by these controls. Continued senior-level follow-up will be an essential complement; however, to any technical reforms. The stakes are high: as Athorbei noted, the gap between monthly oil revenues and the monthly wage bill is forcing the government to make hard choices, even in the absence of these enormous, additional liabilities.

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